I. Overview

Broad-based, equitable economic growth brings benefits to all groups in society, including the poor, the disadvantaged, and the marginalized. It also maximizes the capital formation potential of a country. Three primary factors help determine whether countries can achieve broad-based growth and reduce poverty. They are 1) a policy environment that promotes efficiency and economic opportunity for all, 2) soundly organized and managed institutions, and 3) good governance. Together, these elements result in widespread increases in income, employment, and output. And that leads to reduced poverty, increased food security, and higher standards of living, including better health and education. For transitional countries (i.e., those making the transition from planned to free-market economies such as those in Europe and Eurasia), broad-based economic growth is associated with enhanced political stability and successful transition to market-oriented societies.

Most people in the poorest countries derive their livelihoods from agriculture. Therefore, in the least developed countries, the transformation of agriculture and food systems is an essential aspect of broad-based economic growth. The shift from subsistence agriculture to production for off-farm markets and consumers contributes to a more prosperous rural environment, additional opportunities for employment, and economic progress throughout the economy, as well as enhanced food security.

Women play a central role in broad-based economic growth and agricultural development. In addition to their direct contribution to agricultural production and income generation, women contribute to economic growth indirectly through their household maintenance and child-rearing roles.

To achieve the goal of *broad-based economic growth and agricultural development (EGAD)*, USAID undertakes programs to expand and strengthen private markets, encourage more rapid and enhanced agricultural development, and expand access to economic opportunity for the rural and urban poor. A strong policy environment and strong institutions within recipient countries are the most important determinants of the overall success of USAID programs. Thus, the Agency will continue to place a high priority on EGAD programs that address policy and institutional reform.

Recipients of foreign assistance are making economic and development progress. A recent paper by a USAID economist examined nearly 30 years' worth of data on foreign aid recipients. Between 1965 and 1990, 41 countries that were considered developing, accounting for 2.1 billion people, achieved an average annual rate of growth of per capita income of 3.3 percent.[1] Another USAID Special Study reviewed 45 years of indicators of well-being of people in developing countries. The study found that throughout the developing world, people are living longer lives, eating better, and are far more likely to be literate than ever before in history.[2] These studies provide compelling arguments that past development

1

Strategic Goal 1:

Achieve Economic Growth and Agricultural Development

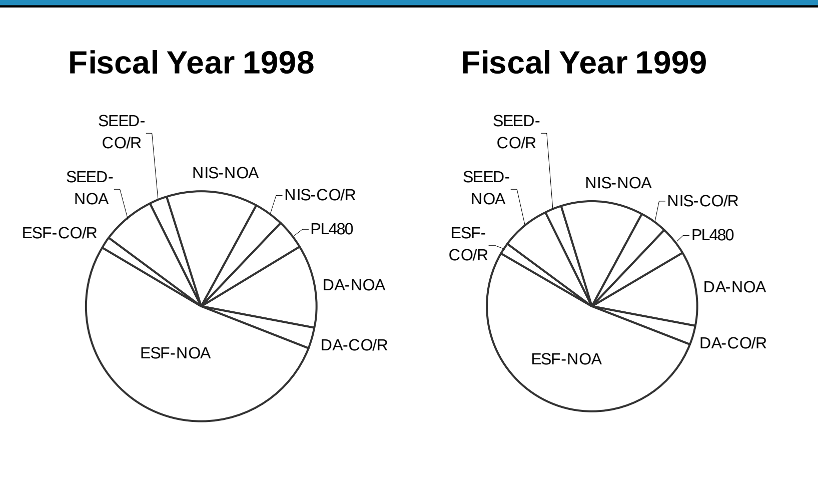
cooperation efforts succeeded and that further gains are achievable.

The success of donor programs such as USAID's depends primarily on working with countries to assist them with their own fundamental efforts at reform. The main determinants of developing-country economic growth performance are their policies and institutions and their commitment to strengthen those policies and institutions. Indeed, World Bank analysis indicates that host-country policy performance and self-help efforts are the most important factors in the effectiveness of donor programs, across a broad range of aid efforts. Preliminary Agency analysis of USAID-assisted countries and programs comports with this finding.

Figure 1.1. USAID-Managed Funds by Strategic Goal
Achieve Economic Growth and Agricultural Development

All Accounts	Fiscal Year 1998		Fiscal Year 1999	
	$US millions	Percent of total	$US millions	Percent of total
Development Assistance	**529**	**14**	**466**	**11**
New Obligation Authority	415	11	416	10
Carryover/recoveries	114	3	50	1
Economic Support Funds	**1,974**	**54**	**1,932**	**47**
New Obligation Authority	1,910	52	1,889	46
Carryover/recoveries	64	2	44	1
SEED	**368**	**10**	**340**	**8**
New Obligation Authority	279	8	251	6
Carryover/recoveries	89	2	89	2
NIS	**619**	**17**	**693**	**17**
New Obligation Authority	465	13	546	13
Carryover/recoveries	154	4	147	4
IDA	—	—	—	—
PL 480	**162**	**4**	**643**	**16**
Total	**3,651**		**4,074**	

Note: Economic Support Funds include $1.2 billion in EGAD cash transfer to Israel in FY98 and $1.08 billion in EGAD cash transfer to Israel in FY99.



The same World Bank analysis also indicates that aid programs can achieve the best results in promoting growth and reducing poverty by aiming at systemic policy and institutional improvements in host countries.[3] USAID, in concert with other donors, plays an important role in supporting the broad range of host-government policy reform efforts (including macro, micro, and sectoral, as well as the ongoing details of these policies), in strengthening institutions, and in adapting programs to local conditions. USAID's impact can be considerable, given the Agency's track record on these issues since the 1980s, as well as our ongoing (though diminishing) field presence.

Issues relating to the links between growth, inequality, and income distribution will receive more careful attention and analysis by USAID over the next year. Specifically, the degree to which and how overall economic progress benefits women, the poor, and other disadvantaged groups represents a set of important strategic issues in which there is still a substantial divergence of views. The disaggregation of performance data, such as that recommended in the

Agency's Gender Plan of Action, should help shed light on the differential effects on these groups.

Despite these limitations, USAID has been achieving significant results in EGAD. The broad performance goals the Agency defined in its fiscal year 1999 Annual Performance Plan are listed later in section I. These goals set the development context and vision for the Agency to work (along with the rest of the development community) toward long-term achievements such as stimulating growth, reducing poverty, and opening and expanding markets. Through specific country programs, USAID attempts to maximize the impact of Agency EGAD resources by choosing and concentrating on important areas where the Agency has a comparative advantage and can have impact. Section II provides examples of USAID's country-specific accomplishments over the last year.

Under the 1999 performance plan, USAID promotes the goal of *broad-based economic growth and agricultural development* through approaches and programs that contribute to three broad Agency objectives. They are 1) critical private markets expanded and strengthened, 2) more rapid and enhanced agricultural development and food security encouraged, and 3) access to economic opportunity for the rural and urban poor expanded and made more equitable.

Benefits to the American Public

USAID promotes economic growth and agricultural development around the world not only to help the disadvantaged but also because doing so benefits Americans. When developing-country economies become more open, expansive, and market oriented, global demand for U.S. goods and services increases.

For example, owing to trade liberalization, U.S. exports to Central America have nearly doubled since 1992 to almost $10 billion. They support 200,000 American jobs.[4] U.S. exports to developing countries (including some in Europe and Eurasia) in 1998 amounted to roughly $275 billion. Although this figure is down somewhat from the previous year, exports to these countries have been growing at a rate of 9 percent over the decade ending in 1998. In comparison, U.S. exports to industrial countries grew at only 6 percent during the same period.[5]

Economic growth also helps reduce widespread and extreme poverty. Economic stagnation contributes to political instability and worsens global and transnational problems such as rapid population growth, accelerated environmental degradation, drug trafficking, and the spread of infectious and communicable diseases.

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Fiscal Year 1999 Agency EGAD Performance Goals

The fiscal year 1999 APP contains five performance goals USAID developed to assess country progress:

- Average annual growth rates in real per capita income above 1 percent achieved
- Average annual growth in agriculture at least as high as population growth achieved in low-income countries
- Proportion of the population in poverty reduced (supporting the Organization for Economic Cooperation and Development's Development Assistance Committee target of a 50 percent reduction in the proportion of people in poverty by 2015)
- Openness and greater reliance on private markets increased (as indicated by increased economic freedom, expanding trade, and increased direct foreign investment)
- Reliance on concessional foreign aid decreased in advanced developing (middle income) countries

These goals are couched in terms of country-level development targets and trends. USAID programs, formulated under three main EGAD objectives (see section II), contribute to the achievement of each of these performance goals. The goals complement those endorsed by the United States as a member of the Development Assistance Committee.

Links between Agency programs and these outcomes are well established in theory and practice. Yet the unique contribution of USAID programs is difficult if not impossible to isolate and measure. Progress at the aggregate level of performance (represented by the goals) must be attributed mainly to development cooperation overall, rather than to individual and limited USAID efforts. In particular they are attributable to the will and commitment of the host country. Thus the performance goals are obviously beyond the Agency's manageable interests.

USAID has analyzed operating-unit indicators to explore the feasibility of producing a useful set of Agency performance measures. It has been a challenge to develop a coherent set of EGAD performance measures that simultaneously 1) are common, 2) cover a significant number of USAID programs, and 3) are within the Agency's manageable interest. We are analyzing clusters of program themes and seeking performance measures that appear to meet these guidelines.

The Agency will continue over the next year to explore how indicators that capture these themes may evolve into a useful set of performance measures. The current performance goals will continue to provide the "country context" that clearly depicts the development progress we aim to support.

Involvement of Other Donors and U.S. Government Agencies

USAID implements its programs with other U.S. government agencies and alongside other donors. A list follows of some of the major donors and implementing partner agencies working on EGAD programs in transitional and developing countries around the world. This list is by no means comprehensive; it does show that USAID is but one actor among a large community of development organizations.

Multilateral Donors And International Organizations

- World Bank
- European Bank for Reconstruction and Development
- United Nations Development Program
- Inter-American Development Bank
- Asian Development Bank
- African Development Bank
- European Commission

Major Bilateral Donors

- Japan
- France
- Germany

U.S. Government

- Department of Treasury
- Department of Agriculture

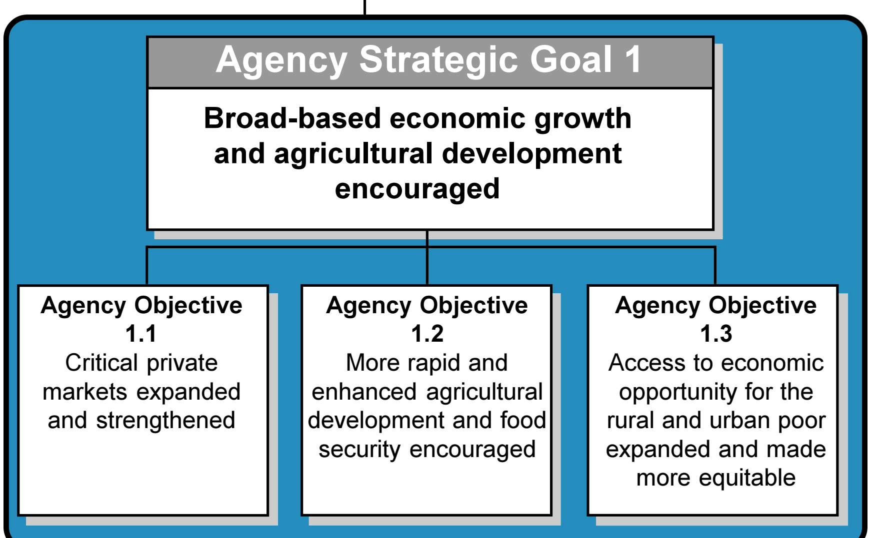
II. USAID Strategies And Program Performance

This section describes USAID's program accomplishments within the context of the performance goals listed in section I. It illustrates how the programs influence the overall economic growth environment of recipient countries.

Overview of USAID Programs Supporting The Performance Goals

USAID supports broad-based economic growth and agricultural development through programs directed at the three broad Agency objectives:

- Critical private markets expanded and strengthened
- More rapid and enhanced agricultural development and security encouraged
- Access to economic opportunity for the rural and urban poor expanded and made more equitable



Agency Objective 1.1: Critical Private Markets Expanded And Strengthened

USAID's programs under this objective contribute directly to the performance goal of *openness and greater reliance on private markets.* The Agency has programs in 56 countries that seek to promote greater openness and reliance on private markets. USAID seeks to improve policies, strengthen institutions, and stimulate development of the private sector as the engine of growth. We work in such critical areas as privatization; trade and investment regimes; legal, regulatory, and judicial issues; and development of financial markets responsive to the needs of private sector investors.

Improving the Policy, Legal, and Regulatory Framework

USAID programs support the development and implementation of pro-growth fiscal and monetary policies. They accomplish this through policy dialog, assistance in the development of legislative and regulatory frameworks, and improvements in the capacity of private sector actors to participate in the policy dialog. Of 115 strategic objectives around the Agency contributing to strengthening private markets, 65 (57 percent) are directed at improving the policy, legal, and regulatory framework for economic growth. This is particularly true in **Europe and Eurasia,** which accounts for over half of these policy, legal, and regulatory strategic objectives.

USAID works with other donors and U.S. government agencies to improve fiscal management. Toward this objective, the Agency promotes adoption of improved budgeting procedures, revision of tax laws and revenue collection practices, and development of the capability for effective regulation of banking institutions and financial markets. Policy, legal, and regulatory programs recorded substantial progress in 1998, with significant reforms implemented in such countries as **Bulgaria,** the **Dominican Republic, Georgia, Ghana, Guyana, Hungary, Mongolia, Poland,** and **Ukraine.**

In Eurasia, notable success was achieved in **Armenia, Georgia, Kazakhstan, Kyrgyzstan,** and **Moldova** in liberalizing prices, in removing trade restrictions, and in making first-round reforms in privatizing small-scale enterprises. In Europe, progress was made in **Albania** (despite the civil war) in advancing commercial law legislation. In **Bulgaria,** USAID's private enterprise development program fostered an improved policy and regulatory environment for small business development. It contributed to an increase in the private sector's share of gross domestic product (GDP) from 55 percent in 1997 to 65 percent in 1998.

In Latin America and the Caribbean, notable successes in policy reform were recorded in the Central America Program. USAID provided assistance to countries in Central America for the drafting of new legislation and regulations essential to the creation of a climate conducive to private investment in energy and telecommunications. The Agency supported modernization of the regulatory framework for the energy and telecommunications sectors in **El Salvador** and **Guatemala**. That support made possible more than $2.6 billion in private investment in the now privatized segments of those industries over the last two years.

Advancing Trade And Investment

USAID also works to strengthen private sector growth through trade and through domestic and foreign investment. In 31 countries, USAID technical assistance and training promotes improved business and management practices. This assistance also empowers businesses to seize both domestic and international opportunities. Moreover, it develops partnerships to overcome impediments to private sector expansion—impediments such as lack of access to domestic finance, inadequate foreign investment, and an absence of international standards.

In 31 countries, USAID technical assistance and training promotes improved business and management practices.

In Asia and the Near East, USAID's largest program, **Egypt,** is also one of its most successful. This program shows that where the recipient government makes a commitment to reforms, donor programs can have a significant effect on policies and on strengthening institutions—with visible results.

Concentrating on accelerated private sector–led, export-oriented growth, the program played a significant role in supporting Egypt's economic turnaround in the 1990s. The program promotes macroeconomic and agricultural policy reforms through policy dialog. It also supports the transfer and utilization of technology, management practices, and market information to Egyptian private sector exporters of horticultural and other nontraditional exports. In 1998, stimulated by growth in private sector nontraditional products, Egypt's economy grew by 5 percent, and the private sector's share of GDP rose to 70 percent.

In Africa the Agency has successful programs that aim to increase nontraditional exports and foreign exchange earnings in Ghana, Kenya, **Malawi,** and **Uganda.** In **Kenya,** USAID assistance led to growth in horticultural exports—up by 12 percent in 1998. In **Ghana,** the Agency has directed its efforts at two primary objectives: improving the policy and regulatory environment for nontraditional exports, and enhancing the capacity of exporters to enter international markets through the support of business and managerial services. Growth in the nontraditional exports sector has averaged 20 percent a year since the program began in 1992. In 1998, nontraditional exports reached nearly $400 million.

In **Latin America and the Caribbean,** USAID's regional program supports the initiative known as the Central American Participation in the Free Trade Area of the Americas. That support has contributed to the adoption of a more outward-oriented regional integration model. It is characterized by lower tariffs, faster implementation of World Trade Organization commitments, and fewer nontariff trade barriers.

The Agency also has programs in **Albania, Armenia, Georgia, Jordan, Sri Lanka,** and the **West Bank–Gaza** that seek to improve the policy and regulatory climate for direct foreign investment and promote more exports by developing partnerships with foreign investors.

In **Armenia,** the 1998 passage of the Armenian Civil Code, facilitated by USAID assistance, was hailed as a major accomplishment. USAID has also helped Armenian firms make the transition to international standards of accounting. Results have been impressive: direct foreign investment rose from $51 million in 1997 to $140 million in 1998.

In **Georgia** the Agency has a similar program of policy, legal, and regulatory reform. It achieved a number of results in 1998. They include adoption of legislation approving international standards of accounting and auditing and adoption of a progressive privatization law for urban industrial land.

Strengthening Financial Markets

The Agency works in 32 countries to promote development of private financial institutions (such as banks and stock exchanges) that mobilize resources for private investment. These activities include 1) developing depositories and clearinghouses, 2) computerizing settlement systems, 3) strengthening the capacity of these private institutions to regulate themselves, and 4) improving the ability of financial institutions to provide financial services to private customers. USAID's approach is to strengthen the twin pillars of financial intermediation: *commercial banking* and *capital markets.*

In **Europe and Eurasia,** USAID has responded to the challenge of transforming financial institutions from serving as funnels for centrally determined investment plans into conduits for the efficient mobilization and allocation of capital between savers and investors. The Agency has financial sector programs in 15 countries in the region that strengthen both the banking sector and financial markets. Programs in 11 of the 15 countries report meeting or exceeding program expectations. In **Africa,** USAID has financial sector programs in nine countries mobilizing savings, expanding access to credit, and reforming financial markets.

Agency Objective 1.2: More Rapid and Enhanced Agricultural Development and Food Security Encouraged

USAID strategies to help achieve the performance goal of *increased per capita agricultural growth rates* rest on approaches that, among other things, seek to 1) improve incentives for farmers and other agricultural entrepreneurs and 2) strengthen public, private, national, and international institutions that support agricultural development. Programs under this objective emphasize improving agricultural- and food-related policies, strengthening support institutions, stimulating agricultural research, and promoting transfer of appropriate technology.

Improving Agricultural And Food Policies

Of the 48 programs in Africa, Asia and the Near East, Europe and Eurasia, and Latin America and the Caribbean that contribute to this Agency objective 1.2, 39 seek to improve policies that provide incentives for farmers. Programs range from high-level dialog with governments on agricultural policy reforms as in **Egypt, Ethiopia, Honduras, Malawi, Mozambique,** and **Peru** to reforms of specific agricultural commodity, land, credit, and input markets as in **Albania, Ethiopia, Kenya, Moldova, Peru,** and **Ukraine.**

In **Africa,** per capita food grain production continues to increase, reversing downward trends. These productivity increases, in turn, are yielding higher farmer incomes. That allows for increases in consumption that ensure food security. Higher value agriculture also has risen in importance, leading to crop diversification, including more export crops. USAID-supported market liberalization in **Mozambique** combined with direct assistance to farmers and rural entrepreneurs resulted in a 44 percent increase in the volume of maize marketed by households in 1998. At the same time, prices received by maize farmers rose by 65 percent. The value of cashew exports reached $35 million, exceeding the $33 million program target.

In Africa, per capita food grain production continues to increase, reversing downward trends. These productivity increases, in turn, are yielding higher farmer incomes.

Strengthening Support Institutions

USAID has 35 programs worldwide that strengthen institutions that support agricultural development. Typical of Agency support are programs that develop indigenous organizations that provide marketing and technological services to farmers and agribusinesses. This has occurred in **Bolivia, Egypt, El Salvador, Eritrea, Ghana, Guatemala, Haiti, Honduras, Kenya, Malawi, Mozambique, Nicaragua, Peru, Uganda,** and **Zambia.**

In **Asia and the Near East,** USAID's program in **Egypt** supported the development and strengthening of private sector institutions that support agricultural development. Most notably, the Agency helped establish several

Research is the primary source of new technology—as well as of information that leads to improved policies.

private trade associations related to seed, horticulture, and fertilizer. The associations will jointly formulate and advocate policy decisions.

USAID's program in **Kenya** supports agricultural research and policy reform through long-term partnerships with the Tegemeo Institute of Agricultural Policy and Development and the Kenya Agricultural Research Institute. The Tegemeo Institute participated in policy dialog on maize market liberalization. That contributed to progress made in increasing farmers' ability to receive good prices for their crops. The share of the wholesale price received by maize farmers increased to 92 percent in 1998 from 82 percent in 1997. The Kenya Agricultural Research Institute's seed-development program issued 29 new horticultural varieties in 1998; farmers producing for export have already adopted 11 of them. Overall, horticultural exports grew by 12 percent during 1997–98.

Promoting Agricultural Research

Increased agricultural productivity depends heavily on the development and spread of new and improved technologies. Research is the primary source of new technology—as well as of information that leads to improved policies. Internationally, USAID sponsors 17 public international agricultural research centers and 10 Collaborative Research Support Programs involving numerous American universities. These programs cooperate with national programs in developing countries. Results of this collaboration can be found in the development and distribution of improved (e.g., higher yielding, more disease and pest resistant) crop varieties in developing countries. A review completed in 1998 concluded that the average rate of return for agricultural research such as this was 56 percent.[6] This figure represents an excellent return on investment and compares favorably with returns in industrial countries.

Promoting Technology Transfer

Many USAID programs (19 of 48 in agriculture) promote the development and transfer of improved agricultural technologies in agricultural production, storage, and marketing. Activities that reflect this approach include improving dairy processing in **Lebanon,** improving land-use practices in **El Salvador, Guatemala,** and **Haiti,** and adopting sustainable farming practices in **Guinea** and **Zambia.**

In **Haiti** the hillside agricultural program now reaches more than 166,000 farms (20 percent of the total) and in 1998 increased real income by 17 percent. The program further expanded into strategic watersheds. In these areas it promotes soil and water conservation and the planting or improving of more than 6.8 million trees, including those producing export-quality mango. In **Guatemala,** the Agency in 1998 helped a thousand farmers switch from slash-and-burn subsistence agriculture to organic agriculture and agroforestry techniques. By intercropping pineapples, fast-growing trees, and corn, farmers increased earnings by more than $207 per hectare during 1997–98.

Agency Objective 1.3: Access to Economic Opportunity For the Rural and Urban Poor Expanded and Made More Equitable

The first two objectives relate primarily to expanding incomes across the board, without special reference to target groups. They also contribute generally to the performance goal of reducing poverty. Objective 1.3, by contrast, aims *specifically* at alleviating poverty. It contributes to this outcome by improving the distribution of income so that women, the poor, and other disadvantaged groups might participate more fully in overall income growth.

The Agency provides targeted assistance particularly by supporting measures that encourage microenterprise and small business development. These activities aim to expand microentrepreneurs' access to financial services and to increase incomes, particularly for groups such as women and the poor. Microenterprise finance is the leading activity under this objective. USAID manages 51 programs that promote expanded and more equitable access to economic opportunity for the rural and urban poor. Of these, 42 seek to improve access by microentrepreneurs to financial services. Thirty promote legal and regulatory environments that support micro, small, and medium-size enterprises.

In Africa, programs in **Mozambique, South Africa, Tanzania, Uganda, Zambia,** and **Zimbabwe** promote development of microenterprise activities among the rural and urban poor. In **South Africa,** USAID's program combines the reform of policies and regulations that hinder the expansion of microfinance institutions with support to microenterprises in developing financing requests. To date, nearly 23,000 microenterprises have been able to access loans totaling $8.1 million.

In Asia and the Near East the Agency promotes development of the microenterprise and small business sector in **Morocco** through its support to the newly established Al Amana lending institution. In 1998 alone, Al Amana added 24 branch offices to the 3 opened in 1997 and hired 64 new credit agents. The institution approved 9,150 loans in 1998 totaling $2.25 million. USAID has similar programs in **Bangladesh, Cambodia, India, Jordan, Lebanon,** and **the Philippines.**

In **Europe and Eurasia,** USAID promotes the development of small and micro enterprises in 16 countries of the region, including those in the Caucasus, Central Asia, and the Balkans. These programs provide sustainable access to financial services by those not served by the commercial banking sector and have demonstrated that small and micro loans can create and sustain jobs and promote prosperity in these transitional economies. In countries where conflict has upended economies and created thousands of refugees, these programs have helped reintegrate war-affected populations. They have allowed struggling microentrepreneurs to make ends meet for their families.

In Latin America and the Caribbean, USAID's program in **Ecuador** seeks to expand lending by private commercial banks to microenterprises, which have traditionally had difficulty obtaining formal financing. In 1998, the Agency leveraged public and private capital to support Banco Solidario, Latin America's first fully private bank established expressly to serve the microenterprise sector. Banco Solidario now has over 13,000 active clients, of which more than half are women. USAID also has microenterprise development programs in **Bolivia, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua,** and **Peru.**

These three economic growth objectives collectively contribute to the performance goal of growth in per capita incomes and reducing poverty. Over the long run, sustained economic growth and higher per capita incomes lead to reduced dependence on foreign assistance, USAID's fifth performance goal under economic growth and agricultural development. For example, after nearly 30 years of sustained economic growth, at least 25 countries, formerly labeled developing countries but now considered advanced, have graduated from foreign assistance for development purposes (some still receive aid for foreign policy reasons). This roster includes **Chile, Costa Rica, Korea, Malaysia, Thailand, Tunisia, Turkey,** and **Venezuela.** Some of these countries are now donors themselves, including **Greece, Korea, Singapore, Taiwan, Thailand,** and **Turkey.**[7]

III. Agency Objectives By Operating Unit and Region

Table 1.1 shows the relative priorities and concentration of each Agency objective within each region. Within **Africa** the emphasis on the three Agency objectives is equivalent, while operating units in **Europe and Eurasia** with EGAD strategic objectives all concentrate on strengthening private markets. There is less emphasis in the region on the other two Agency objectives.

Table 1.1. Agency Objectives by Operating Unit and Region

	Africa	ANE	E&E	LAC	Total
Total operating units	29	16	25	17	87
Total field-based with EGAD objectives	21	12	23	15	71
Critical private markets strengthened	15	10	23	12	60
Agricultural development and food security	16	8	11	10	45
Access to economic opportunity for the rural and urban poor	14	11	11	10	46

Note: This table shows field-based operating units with strategic objectives in support of the EGAD goal and Agency objectives. Operating units may have more than one EGAD strategic objective. In addition, some of the operating units' strategic objectives support more than one Agency goal or objective. See annex B for details on distribution of programs in field-based operating units.

IV. Performance by Fiscal Year 1999 Annual Performance Plan

In this section, data for performance goals and their respective indicators are presented by USAID region. An analysis examines the most recent data available for each goal. The most recent actuals are compared with both baseline year data and 1999 targets that were set in 1997 when the FY99 APP was written. In most cases, 1999 actual data are not yet available. Therefore, assessments as to whether regions met their targets should be considered tentative until target-year actuals are available.

The performance goal indicators generally capture trends over three- to five-year periods using the most up-to-date information available. Thus, for the performance goal of average annual growth in per capita income above 1 percent, the FY99 APP used the number and percentage of countries in each region that had achieved that level over 1992–96 as a baseline. The APP then set forth expected regional performance (targets) for the corresponding period several years hence (in the case of per capita income growth, 1995–99).

Targets for improved performance were based on the following: 1) observed improvements in country policies and the expectation of further improvements; 2) observed improvements in regional and international conditions from the early to the mid-1990s; 3) judgments about the potential for improved country performance; 4) consideration of the magnitude of the gaps between country performance levels and performance goal thresholds (e.g., 1 percent growth); and consideration of trends within the base period. In the latter case, for example, many Europe and Eurasia countries failed to achieve the growth performance goal threshold for 1992–96. However, in almost all cases, growth rates were improving over the period 1992–96. The performance targets vary by region, accounting for these sorts of considerations.

In all cases the expectations revolved around country performance for the set of 1997 USAID-assisted countries in each region, rather than USAID program performance. As emphasized earlier, the performance goals are clearly beyond USAID's manageable interest. They are mainly attributed to development cooperation overall, particularly the will and commitment of the host country.

Overall Comparisons Of Performance

Across all regions, most of the existing performance goals have been met or are on track to being met. All regions have been making significant progress in per capita income growth rates, although **Europe and Eurasia** and **Latin America and the Caribbean** may not meet the fiscal year 1999 Annual Performance Plan targets. All regions have either met or are on track to meeting the performance goal target for growth rates in agricultural production at least as high as population growth for low-income countries. **Africa, Asia and the Near East,** and Europe and Eurasia have either met or are on track to meet the targets for poverty reduction. Under the openness and reliance on private markets goal, all regions met the performance goal target for growth

Across all regions, most of the existing performance goals have been met or are on track to being met.

Among USAID recipients, the Asian financial crisis severely impaired economic growth performance in Indonesia and weakened performance in the Philippines.

in exports and imports. Yet only Europe and Eurasia met its target for increased openness as measured by improvements in the Economic Freedom Index.

Regional Variations In Performance

Overall, Asia and the Near East met more of the performance targets than any other region. Latin America and the Caribbean met the fewest.

In the Asia and Near East region, particularly Asia, trends have been positive and fairly steady since the late 1980s. Among USAID recipients, the Asian financial crisis severely impaired economic growth performance in **Indonesia** and weakened performance in **the Philippines.** But the Agency's support for policy reforms, strengthened economic institutions, and improved economic governance has helped several countries with the recovery process. Performance in **South Asia** has held up fairly well throughout. Overall, these countries are on track to meet the following five performance goal targets: growth in per capita GDP, growth in agricultural GDP that exceeds population growth, poverty reduction, increased openness as measured by growth in exports and imports, and reduced reliance on foreign aid.

In **Latin America and the Caribbean,** the effects of El Niño, the global recession, and Hurricanes Mitch and Georges hurt performance. LAC fell short on several targets: growth in GDP per capita (although more than two thirds of LAC countries achieved growth exceeding 1 percent per capita), poverty reduction, increased direct foreign investment, economic freedom, and reduced dependence on aid. Performance targets were met in per capita agricultural GDP and growth in exports and imports. USAID programs in the region contribute directly to promoting both exports and agricultural production.

Africa either met or was on track to meet the performance targets for growth in per capita GDP, growth in per capita agricultural GDP, poverty reduction, growth in trade, and reduced reliance on aid. Africa missed its performance targets for increased economic freedom and growth in direct foreign investment, signaling the region's continued difficulties in becoming more integrated into the global economy.

A major adjustment in exchange rate policy helped bolster performance in the CFA (Communauté financière africaine) franc zone of West Africa. A number of the countries that recorded significant growth in exports and imports have USAID programs aimed at improving trade regimes, promoting nontraditional exports, and improving the policy and institutional environments for savings and investment. The Agency is currently undertaking promising new and even experimental policy and business linkage activities in Africa to leverage private trade and investment. These activities build on recent progress in leveraging public and private activity in energy, agriculture, capacity building, and legal, regulatory, and judicial reform.

In **Europe and Eurasia,** the transition from communism was expected to generate a pattern of initial decline and then recovery. Through much of the 1990s, this pattern generally prevailed. However, it has weakened more recently as recovery efforts in a number of countries have faltered, particularly in Eurasia. Indeed, in Europe and Eurasia there are striking differences in trends by subregion. At one extreme, the northern tier countries (of Eastern Europe, including the Baltic States) are clearly making progress.

At the other extreme, progress has been much more elusive and more fragile in the new independent states. Differences in policies and institutions (heavily influenced by history) explain much of the difference between these two groups.

E&E countries met performance targets for increased openness as measured by increased trade, increased direct foreign investment, and increased economic freedom. They are on track to meet the performance targets for growth in per capita agricultural production and poverty reduction. Performance is, however, falling short of the target for growth in per capita GDP. USAID programming places heavy emphasis on improving the export performance of countries in the region as well as on promoting the development and growth of agribusiness.

Performance Goal 1: Average Annual Growth Rates In Real per Capita Income Above 1 Percent Achieved

Performance Analysis

The first performance goal of the economic growth and agricultural development sector (see table 1.2) reflects USAID's strong commitment to work cooperatively with its partners to help achieve broad-based economic growth. This goal reflects the economic growth progress being made by recipient countries, with assistance from USAID and other donors. All Agency programs in this sector either directly or indirectly contribute to increasing GDP growth.

In general, there has been significant improvement in per capita GDP growth for USAID-assisted countries, as can be seen by examining the 1998 actuals in comparison with the revised 1996 baselines. For each region, the Agency has set targets representing the percentage of countries that meet the performance goal. According to data available for the period 1994–98 (actual data are not yet available for the FY99 target year), 55 percent of the countries of **sub-Saharan Africa** where USAID operates have average annual growth rates exceeding 1 percent. That puts them on track toward meeting the 66 percent target.

In **Asia and the Near East,** the percentage is 93 percent, exceeding the target. In **Latin America and the Caribbean,** the percentage is 69 percent (currently short of the 80 percent target). And in **Europe and Eurasia,** the percentage is 43 percent (currently short of the 66 percent target).

Achievement Beyond Fiscal Year 1999 Annual Performance Plan Levels

The 1999 Annual Performance Plan targets were exceeded in **Asia and the Near East.** In this region, the (unweighted) average rate of growth in GDP per capita exceeded 2 percent, and only in Jordan did the growth rate register below 1 percent. Overall, USAID's programs in Asia and the Near

East performed well. USAID programs emphasized promoting policy reforms, strengthening economic institutions, and improving economic governance. They helped several countries recover from the East Asia financial crisis and register significant growth in per capita income. For example, the program in **Sri Lanka** dedicated itself to improving the climate for trade and investment so as to improve the country's competitiveness in world markets. Per capita income in Sri Lanka grew by 3.3 percent in 1998.

Planned Actions to Achieve Unmet Fiscal Year 1999 Plan Levels

Performance is unlikely to meet planned levels in Europe and Eurasia and Latin America and the Caribbean for fiscal year 1999. In **Europe and Eurasia,** per capita income fell, on average, by 0.8 percent during 1994–98. The decline was driven by sharp economic declines during the beginning of the period in nine Eurasian countries: **Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan,**

Performance Table From Fiscal Year 1999 Annual Performance Plan

Table 1.2. Performance Goal 1: Average Annual Growth Rates in Real Per Capita Income Above 1 Percent Achieved

Indicator: Percentage of countries with average annual growth rates in GDP (in constant prices) per capita above 1 percent.

Sources: IMF, *World Economic Outlook;* World Bank, *World Development Indicators;* USAID calculations.

		1999 APP Baseline 1992–96	Revised Baseline(1) 1992–96	Latest Actual (2) 1994–98	Target (3) 1995–99
sub-Saharan Africa	planned				66
	actual	36	32	55	
Asia–Near East	planned				90
	actual	79	80	93	
Europe–Eurasia	planned				66
	actual	30	26	43	
Latin America – Caribbean	planned				80
	actual	43	56	69	

Note: Data for this performance goal, as stated in the FY99 APP, are expressed in terms of the percent of countries that are achieving real per capita growth rates of at least 1 percent. An average of annual growth rates for five-year periods is first calculated for real GDP and population for each country to determine whether they meet the 1 percent threshold.

1. The revised baseline represents the percent of countries with average per capita growth rates over 1 percent for the five-year period ending in 1996. 1996 baselines were recalculated for all USAID-assisted countries based on the revised USAID-assisted country list for FY98. This revision was necessary as a number of countries on the original baseline (from the 1999 APP) are no longer assisted by USAID.

2.The actuals are based on the average of annual growth rates for the five-year period ending in 1998. 1999 data are not yet available.

3. The 1999 target reflects the average annual growth rate for the flve-year period ending in 1999. The target figure represents the expected percent of countries in each region with average growth above 1 percent.

Ukraine, and **Uzbekistan.** But toward the end of the period, signs of improvement appeared. They included positive per capita growth rates in Azerbaijan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Weak economic performance in Russia and Ukraine, two countries in the region with the largest USAID programs, continues to cause concern.

In **Latin America and the Caribbean,** GDP growth fell markedly in several countries during 1997–98, with per capita incomes actually declining in **Brazil, Colombia, Ecuador, Guyana,** and **Peru.** Nevertheless, 69 percent of LAC countries had average annual growth in excess of 1 percent. USAID believes that continuing its successful economic growth programs that seek to improve trade competitiveness and stimulate growth in agricultural GDP will help improve overall economic performance in the region.

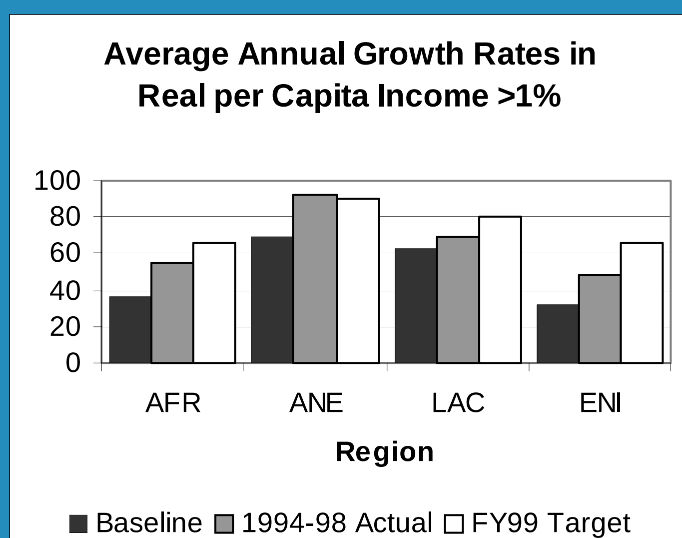
Revisions to the Fiscal Year 2000 Annual Performance Plan

The fiscal year 2000 Annual Performance Plan retained this indicator (percentage of countries with average annual growth rates in GNP/GDP [in constant prices] per capita above 1 percent) and targets. However, performance is falling well short of targets in **Europe and Eurasia** and **Latin America and the Caribbean.** The FY00 performance targets will be met only if Eurasia continues its recovery from a recent economic slowdown and a turnaround occurs in the economies of several countries in Latin America and the Caribbean.

In 1998, per capita GDP growth rates accelerated in several countries in Europe and Eurasia that failed to meet the performance target of per capita growth in income greater than 1 percent. Those include **Azerbaijan, Belarus, Bulgaria, Macedonia, Russia, Tajikistan, Turkmenistan, Ukraine,** and **Uzbekistan.** In Latin America, growth rates improved in only a handful of countries that failed to meet the performance target in 1998—namely, **Haiti, Honduras,** and **Paraguay.**

Adjustments to Be Included In the Fiscal Year 2001 Annual Performance Plan

No adjustments are proposed for the FY01 APP. The Agency plans to review its cluster analysis and, if feasible, provide new performance indicators in the FY02 APP.



Performance Goal 2: Average Annual Growth in Agriculture at Least As High as Population Growth Achieved in Low-Income Countries

Performance Analysis

Positive growth in per capita agricultural production is essential for two main reasons: 1) it leads to real income growth for the bulk of the population in developing countries, and 2) it enhances the prospects for food security. That's because agricultural households can either feed themselves from their own production or obtain the cash income necessary to purchase food imported from elsewhere. USAID has agricultural development programs in 45 countries. The programs seek to strengthen institutions and to improve farmer incentives through policy reform. The Agency coordinates its programs with those of other donors. Agricultural per capita growth rates therefore provide an indication of the progress being made through these concerted donor efforts. In general, USAID-assisted low-income

Performance Table From Fiscal Year 1999 Annual Performance Plan

Table 1.3. Performance Goal 2: Average Annual Growth Rates in Agriculture at Least as High as Population Growth Achieved in Low-Income Countries

Indicator: Percentage of low-income countries with average annual growth rates in agriculture at least as high as average annual growth rates in population.

Sources: World Bank, *World Development Indicators;* USAID calculations.

		1999 APP Baseline 1990–95	Revised Baseline(1) 1990–95	Latest Actual (2) 1992–97	Target (3) 1993–98
sub-Saharan Africa	planned				50
	actual	33	37	74	
Asia–Near East	planned				70
	actual	43	57	71	
Europe–Eurasia	planned				70
	actual	14	25	60	
Latin America–Caribbean	planned				50
	actual	33	33	67	

Note: This performance goal, as stated in the FY99 APP, captures the percentage of low-income countries whose growth rates in agriculture are at least as high as population growth rates as stated in the FY99 APP. An average of annual country growth rates (for both agriculture production and population) for six-year periods is used for the calculation.

"Low-income" is defined by the World Bank as countries with GNP per capita of $785 or less in 1997.

1. The revised baseline period is the six-year period ending in 1995. The baseline was revised for all USAID-assisted countries on the basis of the USAID-assisted country list for FY1998. This revision was necessary as a number of countries on the original baseline (from the 1999 APP) are no longer assisted by USAID.

2. The actuals reflect the average annual growth rates (for both agriculture production and population) for the six-year period ending in 1997. 1998 data are not yet available.

3. The 1999 target reflects the average for the six-year period ending in 1998.

countries have improved significantly in per capita agricultural growth. This can be seen by examining the 1997 actuals in comparison with the revised 1995 baselines. Actuals are not yet available for 1998 and 1999.

For each region, the Agency has set targets representing the percentage of low-income countries that meet the performance goal (see table 1.3). According to data available for 1992–97, 74 percent of the countries of **sub-Saharan Africa** where USAID operates have average annual agricultural growth rates that equal or exceed population growth (surpassing the 1999 APP target of 50 percent). In **Asia and the Near East,** the percentage is 71 percent, just exceeding the 70 percent target. In **Latin America and the Caribbean** the percentage is 67 percent, exceeding the 1999 target of 50 percent. And in **Europe and Eurasia** the percentage is 60 percent (on track toward meeting the 1999 target of 70 percent).

Achievement Beyond Fiscal Year 1999 Annual Performance Plan Levels

The Annual Performance Plan targets for this performance goal were exceeded in **Africa, Asia and the Near East,** and **Latin America and the Caribbean.** In Africa, substantial progress has been made in the agricultural policy environment, and donors have made great strides in understanding what works and what does not. Per capita agricultural growth averaged 1.4 percent in the region from 1992 through 1997. That compares with an average of –2.2 percent during 1990–95.

Planned Actions to Achieve Unmet Fiscal Year 1999 Plan Levels

All four regions are on track to meeting planned levels. However, the Agency will continue to monitor agricultural performance in **Eurasia.** Policy and institutional reform has lagged there, resulting in negative agricultural growth rates in many of the region's countries. Eurasia has only a spotty history of private agriculture production, and its economic transition has faced greater obstacles than the European countries of the former Soviet bloc. In Asia and the Near East, **Bangladesh** and **Cambodia** had agricultural growth rates lagging just behind population growth rates (those countries nonetheless achieved satisfactory overall growth). Overall, growth in agricultural production must continue and eventually exceed population growth by one or two percentage points if a sustained improvement in per capita production is to be achieved.

Policy and institutional reform has lagged in Eurasia, resulting in negative agricultural growth rates in many of the region's countries.

Revisions to the Fiscal Year 2000 Annual Performance Plan

No revisions were made in the fiscal year 2000 Annual Performance Plan. The FY00 performance targets for **Asia and the Near East** will be met if Bangladesh and Cambodia are able to continue to make progress in increasing agricultural production and reducing their population growth rates.

In **Europe and Eurasia,** meeting the FY00 performance targets will be more difficult, as several countries in that region have experienced steep declines in per capita agricultural production. However, recent trends are more promising.

Adjustments to Be Included In the Fiscal Year 2001 Annual Performance Plan

Currently, no adjustments are planned in the performance goals for FY01. Further work and development of revised performance measures will take place in the coming year.

Empirical evidence shows that reducing poverty in most regions depends on growth rates in per capita incomes in the 1 to 2 percent range, assuming that income distribution, at a minimum, does not become worse.

Performance Goal 3: Proportion of the Population in Poverty Reduced

Performance Analysis

The performance goal of reducing the proportion of the population in poverty provides the context for USAID programming. Empirical evidence shows that reducing poverty in most regions depends on growth rates in per capita incomes in the 1 to 2 percent range, assuming that income distribution, at a minimum, does not become worse. Table 1.4 uses region-specific growth rates that were not documented in the FY99 Annual Performance Plan (see note 1 in table).

Poverty reduction is promoted by USAID's programs that support overall economic growth and economic development as part of a coordinated donor strategy for a particular country, combined with measures that create conditions supportive of equitable distribution of growing incomes. In particular, the Agency seeks to improve access by the poor to improved economic opportunities as well as to finance, business skills, and technologies.

These targeted programs are carried out in close collaboration with other international donors. In many cases the programs leverage resources, as in the case of microfinance institutions. USAID also works with other donors to ensure that the policy, legal, and regulatory environments in assisted countries do not explicitly or implicitly discriminate against women, the poor, or disadvantaged groups.

In general, poverty has been significantly reduced in USAID-assisted countries. This can be seen by examining the 1994–98 actuals in comparison with the revised 1992–96 baselines (1999 actuals are not yet available). For each region, the Agency has set targets representing the percentage of countries that meet the performance goal.

Africa has a threshold rate of growth at 1.9 percent. Fully 41 percent of the countries of sub-Saharan Africa where USAID operates have enjoyed the per capita income growth required to meet this threshold. This growth puts Africa on track to meeting the target of 50 percent of the countries in FY99.

In **Asia and the Near East,** all countries were able to sustain growth in income at or above their threshold level, exceeding the target of 80 percent.

In **Latin America and the Caribbean,** only 38 percent of countries met the threshold growth rate (compared with the 1999 target of 60 percent). This was due to relatively slow income growth juxtaposed against a relatively high threshold rate of growth (1.8 percent) required for this region to reduce poverty.

In **Europe and Eurasia,** where a relatively low growth rate was required (0.8 percent), 43 percent of countries met the threshold rate. While the region is on track to meeting the 1999 target of 50 percent and further reducing poverty in the coming years, persistent problems remain. Poverty increased significantly in the early transition years in virtually all of these countries. It will likely continue to increase in many before a turnaround occurs.

Performance Table From Fiscal Year 1999 Annual Performance Plan

Table 1.4. Performance Goal 3: Proportion of the Population in Poverty Reduced

Indicator: Percentage of countries with average annual growth rates of GDP (in constant prices) per capita at or above levels to achieve a 25 percent reduction in the proportion of the population below the poverty line by 2005.

Sources: IMF, *World Economic Outlook;* World Bank, *World Development Indicators;* USAID calculations.

		1999 APP Baseline 1992–96	Revised Baseline(1) 1992–96	Latest Actual (2) 1994–98	Target (3) 1995–99
sub-Saharan Africa	planned				50
	actual	33	9	41	
Asia–Near East	planned				80
	actual	43	80	100	
Europe–Eurasia	planned				50
	actual	n/a	26	43	
Latin America–Caribbean	planned				60
	actual	33	44	38	

Note: Owing to infrequent reporting of poverty data, this performance goal uses a proxy indicator measuring the proportion of countries in each region that sustain growth rates in income at a level equivalent to or higher than the regional consumption rates—enabling them to meet a 25 percent reduction in poverty level by 2005. These required consumption growth rates are based on World Bank geographic regions: Africa—1.9 percent; East Asia–Pacific—1.2 percent; Europe–Central Asia—0.8 percent; MIddle East–North Africa—0.3 percent; Latin America–Caribbean—1.8 percent; South Asia—1.3 percent. These rates represent the 1998 World Development Indicators DAC targets for a 50 percent reduction in poverty by 2015. Actual growth rates for each USAID-assisted country were compared with their corresponding World Bank regional consumption rates. This revised indicator is used in the FY00 Annual Performance Plan.

1. The revised baselines (and 1998 actuals) are the percentage of countries whose growth rates in income meet or exceed the required consumption rates. The baseline was revised for all USAID-assisted countries on the basis of the USAID-assisted country list for FY98. This revision was necessary as a number of countries on the original baseline (from the 1999 APP) are no longer assisted by USAID.

2. The actuals are based on data from the five-year period ending in 1998. 1999 data are not yet available.

3. The 1999 target represents the percent of countries expected to meet or exceed the required average annual growth rates for the five-year period ending in FY99.

USAID will continue to help promote integration of Latin America and the Caribbean region into the international economy.

Achievement Beyond Fiscal Year 1999 Annual Performance Plan Levels

The 1999 targets were exceeded in **Asia and the Near East,** where strong overall economic growth performance contributed to success.

Planned Actions to Achieve Unmet Fiscal Year 1999 Plan Levels

In **Latin America and the Caribbean,** a required growth rate of 1.8 percent means that countries in the region must achieve strong overall economic progress while ensuring that income distribution becomes no worse. USAID will continue to help promote integration of the region into the international economy. Increased trade and investment and agricultural development are important engines of broad-based economic growth. At the same time, USAID will continue to emphasize increased access and opportunity by the poor through microenterprise development and through the promotion of nonfarm rural enterprises producing for domestic and international markets.

Revisions to Fiscal Year 2000 Annual Performance Plan

USAID has included this indicator, adjusting the threshold growth rates, in the fiscal year 2000 Annual Performance Plan. The target for **Europe and Eurasia** countries was raised to 70 percent. Prospects for meeting the FY00 planned levels in **Latin America and the Caribbean** will again hinge on growth rates of per capita income exceeding the 1.8 percent threshold. This scenario is more likely for **Guatemala** and **Nicaragua,** both of which registered growth rates in the 1.3 to 1.5 percent range from 1994 through 1998, and which showed signs of accelerating in 1998.

Adjustments to Be Included In the Fiscal Year 2001 Annual Performance Plan

No adjustments are planned for the FY01 Annual Performance Plan. The Agency plans to review its cluster analysis and, if feasible, provide new performance indicators in the FY02 Annual Performance Plan.

Performance Goal 4: Openness and Greater Reliance on Private Markets Increased

Performance Analysis

The performance goal of openness and greater reliance on private markets is shared throughout the donor community. There is broad consensus that a close two-way relationship exists between economic openness and development progress. Outward-looking economic policies and a willingness to achieve greater economic integration into international trade and investment flows go hand and hand with rapid economic growth. USAID contributes to greater openness and economic integration by working with other donors to promote policies in assisted countries that remove biases against trade and foreign investment, as well as strengthen institutions (public and private) that facilitate economic integration.

Economic Freedom Index. One of the measures for the performance goal of openness and greater reliance on private markets increased is the Economic Freedom Index calculated by the Heritage Foundation. It attempts to measure the extent to which individuals are free to produce, distribute, and consume goods and services (see table 1.5a). Countries are scored on a scale of 1 (most free) to 5 (least free) according to 10 factors. They are 1) trade policy, 2) taxation policy, 3) government intervention in the economy, 4) monetary policy, 5) capital flows and foreign investment, 6) banking policy, 7) wage and price controls, 8) property rights, 9) regulation, and 10) black market. These 10 factors are then combined into a single overall index score. The Economic Freedom Index is a broad indicator that encompasses country-level changes that may be beyond the control of donors, yet provides useful information for targeting programs with significant policy reform components.

As shown in table 1.5a, relative to the 1996 baselines, trends in increased openness (as measured by the percentage of countries with improved economic freedom scores) slowed markedly in **Africa** (45 to 32 percent) and **Asia and the Near East** (64 to 40 percent). In **Europe and Eurasia** and **Latin**

Performance Table From Fiscal Year 1999 Annual Performance Plan

Table 1.5a. Performance Goal 4: Openess and Greater Reliance on Private Markets Increased

Indicator: Percent of countries with improved Economic Freedom scores.

Source: Heritage Foundation.

		1999 APP Baseline 1996/94	Revised Baseline(1) 1996/94	Latest Actual (2) 1998/96	Target (3) 1999
sub-Saharan Africa	planned				50
	actual	47	45	32	
Asia – Near East	planned				80
	actual	80	64	40	
Europe – Eurasia	planned				50
	actual	45	53	52	
Latin America – Caribbean	planned				75
	actual	64	63	63	

Note: "1996/94" reads "1996 compared with 1994."

1. The 1996 revised baseline is the percentage of countries in each region that experienced an improvement in Economic Freedom Index scores from 1994 through 1996. The baseline was revised for all USAID-assisted countries on the basis of the revised USAID-assisted country list for FY98. This revision was necessary as a number of countries on the original baseline (from the 1999 APP) are no longer assisted by USAID.

2. The 1999 actual reports on the percentage of countries for which there was improvement from 1996 through 1998.

3. The 1999 target represents the expected percentage of assisted countries in a region that experienced an improvement in the index from 1996 through 1998.

America and the Caribbean, the percentage of countries with improved scores was more or less constant relative to the baseline (53 to 52 percent and 63 to 63 percent, respectively). Except for E&E, where the 1999 APP target represents a straight-lined trend, the targets for improvement set in the 1999 APP were not met.

Trade. USAID throughout the world seeks to improve the competitiveness of assisted countries. These programs aim at improving trade regimes, promoting more export-oriented development, and enabling private sector exporters to take advantage of opportunities to enter international markets.

The Agency measures this openness using indicators that report the growth in exports and imports (see table 1.5b). For **Africa** and **Europe and Eurasia,** the indicator reflects the percentage of countries in each region with positive rates of growth in exports and imports. For **Asia and the Near East** and **Latin America and the Caribbean,** the indicator represents the unweighted average annual growth rate of exports and imports for USAID-assisted countries.

As shown in table 1.5b, in 1994–97 **Africa** saw an increase in the percentage of countries with increased exports and imports compared with the 1990–

Performance Table From Fiscal Year 1999 Annual Performance Plan

Table 1.5b. Performance Goal 4: Openess and Greater Reliance on Private Markets Increased

Indicator: a) Percentage of countries with positive average annual growth rates in exports and imports, or b) average annual growth rates in exports and imports.

Source: World Bank, *World Development Indicators.*

		1999 APP Baseline 1990–95	Revised Baseline(1) 1990–95	Latest Actual (2) 1994–97	Target (3) 1995–99
sub-Saharan Africa (a)	planned				75
	actual	36	86	90	
Asia–Near East (b)	planned				8.0
	actual	9.5	11.9	10.9	
Europe–Eurasia (a)	planned				80
	actual	n/a	n/a	83	
Latin America–Caribbean (b)	planned				6.0
	actual	7.0	9.0	10.3	

Note: Average growth rates for the revised baseline and 1999 actuals are unweighted averages—i.e., average of country growth rates.

1. The revised baseline period reflects the averages for the six-year period ending in 1995. The baseline was revised for all USAID-assisted countries on the basis of the revised USAID-assisted country list for FY98. This revision was necessary as a number of countries on the original baseline (from the 1999 APP) are no longer assisted by USAID.

2. The actuals are based on data from a four-year period ending in 1997. Data for 1998 and 1999 are not yet available.

3. The 1999 target reflects the average for the five-year period ending with 1999.

95 revised baseline (90 percent and 86 percent, respectively). **Europe and Eurasia** most likely saw an increase (to 83 percent), but the baseline period had insufficient data.

In **Asia and the Near East,** average annual growth rates in exports and imports fell from 11.9 percent to 10.9 percent. This was due primarily to the rapid growth of Vietnam's trade flows during the first half of the decade. That growth has leveled off somewhat in recent years. In **Latin America and the Caribbean,** growth rates in exports and imports of 10.3 percent exceeded the revised baseline of 9.0 percent.

In the FY99 Annual Performance Plan, USAID set 1999 targets against which it has assessed progress for each region. Though 1999 actuals are not yet available, **Europe and Eurasia** and **Africa** exceeded the targets of 80 and 75 percent, respectively according to the most recent data. In both **Asia and the Near East** and **Latin America and the Caribbean,** the average growth rates were well above the expected levels of growth represented by the 1999 APP targets (10.9 percent, compared with 8.0 percent, and 10.3 percent compared with 6.0 percent, respectively).

Performance Table From Fiscal Year 1999 Annual Performance Plan

Table 1.5c. Performance Goal 4: Openess and Greater Reliance on Private Markets Increased

Indicator: Percentage of countries in which average annual growth rate of direct foreign investment increased.

Sources: World Bank, *World Development Indicators.*

		1999 APP Baseline 1990–95	Revised Baseline(1) 1990–95	Latest Actual (2) 1994–97	Target (3) 1995–99
sub-Saharan Africa	planned				75
	actual	62	36	38	
Asia–Near East	planned				95
	actual	92	73	80	
Europe–Eurasia	planned				75
	actual	n/a	n/a	78	
Latin America–Caribbean	planned				95
	actual	92	75	75	

Note: "Direct foreign investment" is defined as net inflow of investment to acquire a lasting management interest (10 percent or more) in an enterprise in an economy other than that of the investor. Countries meet the perfomance goal if they average sustained annual growth of 5 percent.

1. The revised base represents the six-year period ending in 1995. The baseline was revised for all USAID-assisted countries on the basis of the revised USAID-assisted country list for FY98. This revision was necessary as a number of countries on the original baseline (from the 1999 APP) are no longer assisted by USAID.

2. The actuals are based on data from a four-year period ending in 1997. Data for 1998 and 1999 are not yet available.

3. The target for 1999 reflects the five-year period ending in 1999.

Direct foreign investment. (table 1.5c) Direct foreign investment reflects the attractiveness of countries relative to their enabling environment, their political risk, their conformity with international standards of accounting and business practices, and their economic resources. USAID is active in improving investment regimes, promoting the adoption of international standards, and enhancing the competitiveness of exporters and, therefore, their attractiveness as partners for foreign investors.

The Agency measures openness by using the indicator on direct foreign investment, defined as net inflow of investment to acquire a lasting management interest (10 percent or more) in an enterprise in an economy other than that of the investor. The indicator reflects the percentage of countries in a region with increased inflows of direct foreign investment. Clear increases in direct foreign investment inflows is subjective in nature, as the levels of investment into a country can vary widely from year to year, especially within smaller economies. For this report, an average annual growth of 5 percent is considered a positive, sustained level of investment over the specified period.

Table 1.5c shows that there has been some progress in **Asia and the Near East** relative to the revised 1990–95 baseline. **Africa** and **Latin America and the Caribbean** more or less maintained their baseline levels. **Europe and Eurasia** had insufficient baseline data for comparison, although the actuals reflected strong performance.

Relative to the FY99 Annual Performance Plan targets for 1999, the Europe and Eurasia region has already met the FY99 target. In the other three regions, 1999 targets are not likely to be met, although the trend in Asia and the Near East is promising.

Achievement Beyond Fiscal Year 1999 Annual Performance Plan Levels

Economic Freedom Index. In **Europe and Eurasia,** actual performance just slightly exceeded the 1999 target (52 percent, compared with 50 percent). No other region exceeded the target.

Trade. Actual progress in increasing exports and imports exceeded targets in all four regions.

Direct foreign investment. The 1999 target for direct foreign investment was just slightly exceeded in **Europe and Eurasia** (78 percent compared with 75 percent).

Planned Actions to Achieve Unmet Fiscal Year 1999 Plan Levels

Economic Freedom Index. The data for this performance goal show that significant slowing has occurred in **Asia and the Near East** and **Africa** in regard to improving economic freedom. (In **Europe and Eurasia** and **Latin America and the Caribbean,** progress has remained steady.) In collaboration with other donors and with the multilateral institutions that take the lead on broad fiscal and monetary policy issues, USAID will continue to work with assisted countries to eliminate restrictive barriers to economic growth and create policy environments that permit vibrant and open markets.

Trade and investment. Although significant progress has been made in promoting nontraditional exports in **Africa,** much more needs to be done to build on past accomplishments to further integrate that continent into the world economy. USAID has started the African Trade and Investment Policy Program as an opportunity to undertake promising new and even experimental policy and business linkage activities to leverage private trade and investment. In its first year, the program has leveraged significant public and private activity in energy; agriculture; legal, regulatory, and judicial reform; and capacity building.

In Latin America and the Caribbean, poor performance on direct foreign investments stems largely from the economic slowdown that plagued the region, making it a less attractive environment for foreign investment. However, most LAC-assisted countries are increasing direct foreign investment at some level, except for **El Salvador, Guatemala, Haiti,** and **Peru.** More than half the net inflows to the region's assisted countries have flowed to **Brazil** and **Mexico.**

However, USAID will continue to work at the regional, subregional, and country levels to promote greater harmony of policies, improve the legal and regulatory frameworks for foreign investment, and support the development of agroexport activities as potential partners for foreign investors.

Revisions to Fiscal Year 2000 Annual Performance Plan

A few of the FY00 targets were adjusted slightly in the FY00 Annual Performance Plan. Given the decline in the number of countries reporting improved Economic Freedom Index scores, the performance target is unlikely to be met in **Africa, Asia and the Near East,** and **Latin America and the Caribbean**.

As measured by growth in trade, meeting targets for economic openness in **Africa** will be more challenging given a higher target for the region in the FY00 APP. But data from 1997 are encouraging. Nineteen of 21 countries recorded positive growth rates in exports and imports (the exceptions were **Mozambique** and **Rwanda**), with the unweighted regional average reaching 7.4 percent (compared with 3.3 percent in 1990–95).

Prospects for meeting the FY00 Annual Performance Plan targets for increased direct foreign investment in Africa will hinge on maintaining progress in countries such as **Angola, Ghana, Kenya, Madagascar, Mozambique, Namibia, South Africa, Tanzania, Uganda, Zambia,** and **Zimbabwe,** while increasing investment in other countries. However, prospects are daunting, given the traditionally low levels of direct foreign investment entering those countries as well as considerable year-to-year variation. Overall, direct foreign investment increased by 19 percent annually during 1993–97. That compares with averages of 30 to 43 percent for the other regions.

In **Latin America and the Caribbean,** clear increases in direct foreign investment must occur in three additional countries if the FY00 APP target of 95 percent is to be met. Being relatively poorer, countries in **Central America** tend to attract lower levels of

Although significant progress has been made in promoting nontraditional exports in Africa, much more needs to be done to build on past accomplishments to further integrate that continent into the world economy.

foreign investment. However, regional initiatives such as USAID's Program in Support of Central American Participation in the Free Trade Areas of the Americas, combined with ongoing bilateral programs that enhance the structure of incentives for foreign investment, may help yield the results necessary to achieve the performance target.

Adjustments to Be Included In the Fiscal Year 2001 Annual Performance Plan

No adjustments are planned for the FY01 Annual Performance Plan. The Agency plans to review its cluster analysis and, if feasible, provide new performance indicators in the FY02 Annual Performance Plan.

Performance Goal 5: Reliance on Concessional Foreign Aid Decreased In Advanced Developing Countries

The performance goal of decreased reliance on foreign aid in advanced developing countries reflects USAID's commitment to ensuring that scarce resources are targeted to countries in greatest need. Advanced developing

Performance From Fiscal Year 1999 Annual Performance Plan

Table 1.6. Performance Goal 5: Reliance on Concessional Foreign Aid Decreased in Advanced Developing Countries

Indicator: Percentage of advanced developing (middle income) countries in which aid as a percent of GNP declined.

Sources: World Bank, *World Development Indicators 1999;* USAID calculations.

		1999 APP Baseline 1994/90	Revised Baseline(1) 1994/90	Latest Actual (2) 1997/93	Target (3) 1999/95
sub-Saharan Africa	planned				50
	actual	50	100	50	
Asia – Near East	planned				80
	actual	100	100	88	
Europe – Eurasia	planned				50
	actual	n/a	n/a	56	
Latin America – Caribbean	planned				100
	actual	100	77	62	

Note: "1994/90" reads "1994 compared with 1990." Included in the table are advanced developing counties, defined as those countries meeting the criteria for the World Bank classification of middle income.

1. The baseline was revised for all USAID-assisted advanced developing countries on the basis of the USAID-assisted country list for FY98. This revision was necessary as a number of countries on the original baseline (from the 1999 APP) are no longer assisted by USAID.

2. The 1997/93 actuals reflect 1997 compared with 1993 aid levels. Data for 1998 and 1999 are not yet available.

3. The 1999 APP target reflects 1999 levels compared with 1995.

countries are expected to rely more on nonconcessional sources of finance (e.g., private capital markets or nonconcessional lending from multilateral institutions).

USAID develops program closeout or graduation strategies for countries that have sustained broad-based economic growth and agricultural development and will no longer require concessional assistance beyond a certain date. Reducing dependence by advanced developing countries on concessional assistance is a long-term USAID goal. That goal is implicit in our approaches that promote capacity building through training and technical assistance. And it is implicit in our activities to advance legal and regulatory frameworks and private sector institutions that sustain economic growth.

Performance Analysis

The performance goal of decreased reliance in advanced developing countries on foreign assistance is measured by aid as a percentage of gross domestic product. Table 1.6 shows that for regions with baseline data (**Africa, Asia and the Near East,** and **Latin America and the Caribbean**) advanced developing countries were in fact *more* dependent on aid. These trends are based on a relatively small number of middle-income countries in each region, so that changes in any one country will have a large impact on the group average. In addition, some of these countries already have low levels of aid dependency, so fluctuations tend to be small.

For each region, USAID has established 1999 performance targets that indicate the percentage of countries that have reduced reliance on foreign assistance over the five-year period ending in 1999. Comparing progress shown by 1997 actuals with the 1999 targets, expectations are just being met in Africa, where 50 percent of advanced developing countries reduced reliance on concessional aid**.** (**Namibia'**s reliance has decreased, while **South Africa'**s has increased.) **Asia and the Near East** and **Europe and Eurasia** have so far exceeded their 1999 targets of 80 percent and 50 percent, respectively. **Latin America and the Caribbean** is falling well short of its target of 100 percent.

Achievement Beyond the Fiscal Year 1999 Annual Performance Plan Levels

Actuals exceeded the 1999 targets in **Asia and the Near East** and **Europe and Eurasia.**

Planned Actions to Achieve Unmet Fiscal Year 1999 Plan Levels

Latin America and the Caribbean missed the performance target. Aid dependence showed signs of increasing in **Bolivia, Colombia,** the **Dominican Republic, Guyana,** and **Panama** in LAC. This performance goal has a long-term time horizon and is not likely to show substantial change on a year-to-year basis. USAID works to graduate countries out of concessional assistance over the long run. Country-level progress toward sustained and broad-based economic growth should ultimately enable these middle-income countries to graduate from foreign assistance.

Revisions to the Fiscal Year 2000 Annual Performance Plan

USAID maintained the existing FY99 targets in the fiscal year 2000 Annual Performance Plan. Given the lack of progress made toward the FY99 targets, it is unlikely the FY00 targets will be met.

Adjustments to Be Included In the Fiscal Year 2001 Annual Performance Plan

The 2001 Annual Performance Plan makes an adjustment to this indicator whereby countries meet the dependency threshold if their dependence on aid is either declining or low, defined as less than or equal to 0.5 percent of GDP.

Notes

[1]Michael J. Crosswell. 1998. *The Development Record and the Effectiveness of Foreign Aid*. Staff Discussion Paper No. 1. Washington: USAID.

[2]James W. Fox. 1998. *Gaining Ground: World Well-Being 1950-95*. USAID Evaluation Special Study Report No. 79. Washington.

[3]The World Bank. 1998. *Assessing Aid: What Works, What Doesn't, and Why*. World Bank Policy Research Report. Oxford University Press: New York.

[4]Latin America and the Caribbean: Selected Economic and Social Data, USAID, 1999.

[5]Department of Commerce, as reported in Economic Report of the President, transmitted to Congress February 1999.

[6]J.M. Alston, M.C. Marra, P.G. Pardey, and T.J. Wyatt. 1998. *Research Returns Redux: A Meta-Analysis of the Returns to Agricultural R&D*. EPTD Discussion Paper No. 38. Washington: International Food Policy Research Institute.

[7]Michael J. Crosswell. *The Development Record*.